



Environmental Fact Sheet

Commuter Choice: Information for Employers

Commuter Choice Programs allow businesses to give employees a better benefits package, save tax money, and save on parking costs. The programs also help employers improve local air quality and decrease traffic congestion.

What is Commuter Choice?

Commuter Choice programs provide a framework for employers to offer commute benefit options which will encourage employees to get to work in ways that are less polluting than driving alone. A Commuter Choice program can be developed by an individual company or as part of a wider regional strategy. Such programs serve as attractive employee benefits which help in the recruitment and retention of quality employees. In addition, because of recent changes in the Federal tax code, employers can save on taxes by offering these benefits.

Commute Options

Commuter Choice programs may include one, all, or a combination of the following individual benefits:

- Free or reduced cost passes for public transportation, such as subway cards, bus tokens, or train tickets.

- Services to facilitate vanpooling and carpooling such as providing vans, ridematching, and a guaranteed ride home.
- Telecommuting options (so employees can work at home more often).
- Proximate Commuting: a program that matches employees of multi-site employers (such as banks or chain stores) to the branch office nearest their home.
- Incentives to bike or walk.
- Parking Cash Out: employees can trade employer-paid parking space for cash or transit/vanpool benefits. (Employers can deduct the cashed out space from income taxes as a parking benefit.)

Commuter Benefits in Federal Tax Law

Federal law offers these tax advantages to employers who provide employees with qualified transit, vanpool, and parking benefits:

- Employers do not pay payroll taxes (e.g., FICA, unemployment insurance, and other payroll related costs) on the value of these benefits.
- When employers pay for the benefit, they can *deduct* the value of these benefits from their Federal business income taxes.
- Employers save compared to conventional raise or bonus.

Under the new tax law, employers can offer the specified benefits for their employees' work commutes in addition to or in lieu of compensation *Federal-tax-free* up to these Federal limits:

- Up to \$175 per month for parking at or near work site and transit facilities
- Up to \$65 per month for public transit
- Up to \$65 per month for vanpool services

(For transit and vanpooling, this amount will increase to \$100/month for taxable years beginning after December 31, 2001.)

Note: Tax Breaks on benefits only apply directly to transit, vanpool and parking benefits. The cash option from Parking Cash Out and any other monetary incentives are taxable for that employee. Subsidized parking and other transportation benefits do not become taxable if an employer offers them along with the Parking Cash Out option. Although the tax laws do not specifically relate to benefits like telecommuting, carpooling, biking, walking, and other commute options, employers may still offer

them. One way to provide incentive for these other options is through Parking Cash Out, where employees can choose the cash benefit and commute by these alternative modes.

How Benefits are Offered

1. In Addition to Compensation/Additional Benefit

An employee may receive the benefit *in addition to* their current wages. Specifically, they can receive transit, vanpool, and parking benefits *completely free of all U.S. payroll and Federal income taxes*. The employer pays for the benefit and receives a deduction from his Federal business income taxes for the value of the benefit. The employer also does not pay payroll related taxes or costs on the benefit.

Examples:

- Employer purchases a \$65 subway or bus pass and gives it to the employee. Employee pays no payroll or income taxes on benefit. Employer pays no payroll taxes and deducts the \$65/month (\$780/year) expense.
- Employer provides a free vanpooling service worth \$65 per month. Employer and employee experience same tax savings as above.
- Employer offers the \$80 instead of the parking space (Parking Cash Out). Employee can take \$80 as taxable income or keep parking space tax-free. Employer deducts the \$960 per year benefit from Federal business income taxes, but pays payroll taxes on the cash for that employee.

2. In Lieu of Compensation/Pre-tax Benefit

An employer may permit employees to *set aside some of their income, before taxes*, to pay for their commutes. Employees may use this pre-tax income to pay for transit, vanpools, or parking. Employees would not pay Federal income taxes or payroll taxes on the amount they elect to set aside for the commute option, and employers would not pay U.S. payroll taxes or other payroll related costs since the amount is treated as a benefit rather than as taxable salary.

Example: Employee asks employer to set aside \$65 per month of existing (pre-tax) salary for a subway or bus pass. Employee saves payroll and income taxes on \$65 per month. Employer saves payroll taxes on \$65 per month.

3. Cost-Sharing

Employers may *share the cost of commuting* to and from work with their employees. They could do this through a combination of the two benefits above.

Example: Employer provides a \$35 transit pass. Employee asks employer to set aside \$30 from existing (pre-tax) salary. Employer saves payroll taxes on \$65 and deducts the additional \$35 expense. Employee saves on payroll and income taxes for the \$65 benefit.

Commuter Choice Can Save Employers Money

Clearly, employers do save money on taxes for providing the Federally specified benefits. In fact, because of these payroll and income tax savings, providing commute benefits can sometimes be cheaper than providing a salary increase (depending on fringe factors). However, there are also other ways costs can be cut, revenue produced, and money saved. Reducing employee demand for parking can free up parking spaces for customers, or the space can be converted for other revenue producing purposes. Commuter Choice programs also have the potential to remove need for expensive new parking construction.

Commuter Choice Enhances Recruitment and Retention

With additional benefits, employers stand out in the competitive market for qualified employees. By offering a choice of commute option benefits, an employer can respond to the differing needs of these employees. Under the current tax code, employers can realize Federal payroll and income tax savings while providing their employees with benefits that are appreciated by current employees and sought by potential employees.

Commuter Choice is Flexible For Employers

A Commuter Choice program can take different forms for employers in different areas. This is not a “one size fits all program” because transportation alternatives and parking situations vary from region to region. Employers have the flexibility to address commute benefit issues within the context of site specific circumstances.

Commuter Choice Improves Air Quality and Relieves Congestion

Commuter Choice programs can help reduce air pollution and other negative environmental effects from commuting by reducing vehicle miles traveled. Expanding travel choices is a way to improve air quality and decrease congestion. Commuters with choices other than free parking are less likely to drive alone to work.

Employers and Employees like Commuter Choice

The experience of many participating employers in Commuter Choice programs has been uniformly positive. Programs have achieved high satisfaction rates from employers and are well appreciated by employees. Parking Cash Out in California, for example, has been characterized as “a really good experience,” “fairer,” “very little administrative burden,” and “loved” by employees.¹

Getting Recognized for Commuter Choice

Employers can gain recognition for their programs. In early 1998, Tacoma, Washington held its first “Governor’s Commute Smart Awards”. Eighteen out of 900 work sites involved in the Washington Department of Transportation’s (DOT) Commute Trip Reduction Program were honored at a luncheon in Olympia.

For More Information

This document and additional information on transportation and air quality are available electronically at the TRAQ Center on the EPA Internet server at:

<http://www.epa.gov/oms/traq>

For a hard copy of this document, please call the National Service Center for Environmental Publications (NSCEP) at (800) 490-9198.

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¹ Shoup, Donald, “Evaluating the Effects of Parking Cash Out: Eight Case Studies,” final report to the California Air Resources Board. Draft, May 22, 1997.